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World trade

The Doha squabble

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A failure to liberalise farm trade threatens the entire Doha round of trade talks

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THE outlook for the already troubled Doha round of multilateral trade talks will darken considerably on March 31st. That was the deadline set by world trade ministers, when they launched the Doha round in November 2001, for agreement on the scope of talks for freeing up trade in agriculture. It is a deadline that is now certain to be missed.

Deadlines are always missed in trade negotiations. But this time the stakes are unusually high. For a start, agriculture is not the only issue on which the timetable has slipped. The Doha agenda promised an agreement by the end of 2002 on getting poor countries access to cheap generic drugs to fight AIDS and other scourges. All countries bar the United States duly agreed on a formula in December; but, because changes to world trade rules must be agreed unanimously, the deadline was missed. Trade ministers are also squabbling over altering existing trade agreements to help poor countries, which they also promised to do by the end of 2002.

Moreover, farm trade is not some peripheral issue: it is central to the whole round. Doha was launched with much fanfare about its being a “development round”. Many developing countries felt they got a raw deal from the Uruguay round. They were dragged reluctantly into yet another set of trade negotiations largely by the promise of freer trade in farm goods. Lower tariff barriers and a big chop in the $300 billion-plus of subsidies that rich countries lavish on their farmers every year would give a big boost to many poor countries. Given the stakes involved, it is hardly surprising that those countries do not take kindly to delay. As Supachai Panitchpakdi, director-general of the World Trade Organisation (WTO), puts it, “the sense of frustration is growing.”

This frustration could spill over into other areas of negotiation, including services, more cuts in tariffs on industrial goods, and a revision of rules on anti-dumping. In all these areas, most countries will stall until they see progress in agriculture. March 31st is also the date by which countries are meant to table offers for which services they intend to free up, and by how much. There are murmurs in Geneva that some countries are now scaling back their offers. Robert Zoellick, America's top trade man, recently implied that America's willingness to make concessions on anti-dumping, which will be politically tough to sell to Congress, depends on progress in the farm talks.

The agricultural impasse must be cleared if the round is to succeed. But how? The problem harks back to Doha itself. The WTO's members agreed then to make “substantial improvements in market access” (ie, reductions in tariffs), “reductions of, with a view to phasing out, all forms of export subsidies”, and “substantial reductions in trade-distorting domestic support”. But what constitutes “substantial”, and how do you measure it? The weasel words of the Doha declaration papered over big differences between farm-subsidising rich countries and farm exporters.

Farm corners

In one corner stands the Cairns group of agricultural exporters (including Canada, Australia and Brazil), plus the Americans. Although there are differences among them, this group wants an ambitious outcome, including the scrapping of export subsidies and big cuts in trade-distorting domestic subsidies and tariffs. The Americans want to phase out export subsidies over five years, to cut subsidies to 5% of the value of farm production and to slash tariffs to no more than 25%.

These radical plans admittedly stand in stark contrast to the American farm bill signed by George Bush last year, which dramatically increased farm subsidies. What this shows, argues Mr Zoellick, is that America is ready to dismantle subsidies—but only if the playing-field is level. And this implies that countries with higher tariffs and subsidies must cut them by more than those with less support.

In the other corner stand countries that lavish most support on their farmers: the European Union, in particular, but also Switzerland, Norway, Japan and South Korea. These countries take a different view of what “substantial” implies. The EU rejects the idea that export subsidies should be abolished (it talks about a 45% cut). Its definition of “substantial” is a 55% reduction in trade-distorting subsidies and a 36% cut in tariffs. And it adamantly opposes the idea that those with higher tariffs and bigger subsidies should cut more, suggesting instead that all countries should cut average tariffs by the same amount.

The EU also wants the agriculture negotiations to cover a whole set of other areas, from food safety and labelling to rules that protect the names of products from specific geographic regions, such as feta cheese or calamata olives. Such “non-trade” issues infuriate farm-exporting countries, which think the EU is trying to redefine the agenda to its advantage.

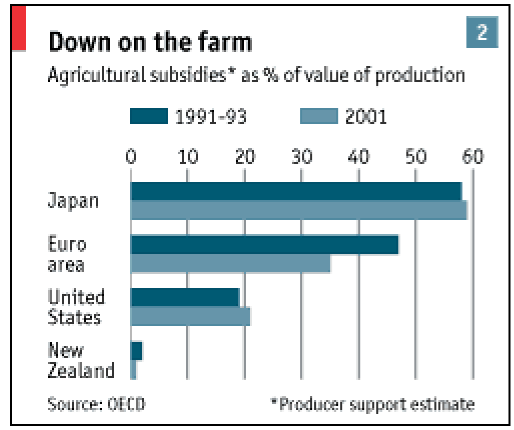
Stuart Harbinson, chairman of the WTO's agriculture negotiating committee, has been trying to forge a compromise by taking elements from both corners. But his first effort, released in February, was roundly criticised: Washington decried its “low level of ambition”, Brussels complained that it was “unbalanced”. His second, marginally revised text was little more popular.

Blame Mr Chirac

For the most part, the European Union is roundly blamed for this mess (Japan and other farm protectionists are expected to follow Europe's lead). The underlying reason is Europe's failure to agree on radical changes to its common agricultural policy (CAP). In the absence of any political agreement on whether and how soon to reform the CAP, trade negotiators from Brussels have little room for manoeuvre.

Franz Fischler, the EU's agriculture commissioner, has made ambitious proposals to decouple subsidies paid to Europe's farmers from their production. In principle, this would reduce the EU's use of trade-distorting subsidies, as well as its reliance on export subsidies. But several EU members, particularly France and the Mediterranean countries, view Mr Fischler's plans with deep suspicion.

Worse, a deal between France's Jacques Chirac and Germany's Gerhard Schröder last year promised to keep CAP spending broadly unchanged until 2013. Although this will mean a cut in real terms, the French interpret it as putting off meaningful CAP reform. Conventional wisdom had long held that the EU would be forced to reform the CAP to cope with its expansion to include such countries as Poland, with its huge number of farmers. Yet the Chirac/Schröder deal appears to push reform far beyond the Doha timetable.



Another pressure-point might come from Europe's ambitions to be a friend of poor countries. Last month, when he was drumming up opposition to war with Iraq, Mr Chirac acknowledged for the first time that export subsidies harmed poor countries in Africa. He suggested a moratorium on their use—surprising for a man who cut his teeth as French farm minister. Next day, normal service resumed: he argued that there was no need to reform the CAP.

Europe's intransigence aside, the issue of how to help poor countries raises more problems for farm negotiations. Those with preferential access to rich-country markets, mainly in Africa and the Caribbean, are keen to keep that advantage. Yet these preferences are anathema to more efficient developing-country exporters, such as Argentina. And other poor countries are against complete farm liberalisation. India, for instance, is deeply worried that cutting tariffs on agricultural goods might ruin its rural economy.

Cut to Cancun

The final deadline for dealing with all these issues has now become the next gathering of world trade ministers at Cancun in September. "We seem to be rolling a snowball of unresolved issues towards Cancun," is how one trade negotiator puts it. And that, as many officials acknowledge privately, means that the original Doha deadline of finishing the round by January 2005 is, in effect, defunct. Instead, ministers will have to choose between finishing a less ambitious agenda on time, or extending the timetable.

Those who argue that a slimmed-down Doha round is plausible point out that Pascal Lamy, the EU's trade commissioner, has a good reason to get something by the end of next year, when his term as commissioner ends. Since Mr Lamy is a French socialist, Mr Chirac may be reluctant to reappoint him as France's lone commissioner. But the odds of a mini-deal with scant progress on farm trade are minimal. For most countries, agriculture is simply too important to leave aside.

Delay is therefore far more likely. Although nobody yet talks of it publicly, one popular revised deadline is 2007, the year that Mr Bush's fast-track negotiating authority expires. But delay brings big risks of its own, especially since the negotiations are so badly stalled. A particular concern is that momentum could shift elsewhere. The United States is working on a Free-Trade Area of the Americas as well as a slew of bilateral deals. The EU is pursuing its own regional deals. Bilateral free-trade agreements are springing up all over Asia. Officials in Geneva worry that these are sapping energy from the Doha round. The benefits of a multilateral trade deal are vastly superior to those of a patchwork of bilateral and regional agreements.

A second risk is of more trade disputes. Agriculture itself could throw up several. In recent years trade disputes over farm products have been put on hold under a "peace clause" negotiated during the Uruguay round. That clause expires on December 31st. If the peace clause expires and the Doha round is stalled, big exporters, such as Brazil, may resort to litigation.

If Doha goes nowhere, several simmering bilateral disputes between America and Europe could also boil up again. The biggest is the foreign-sales corporation tax. Brussels has won the right to impose up to $4 billionworth of tariffs in retaliation for America's failure to get rid of this tax provision, which the WTO has ruled illegal. There may be fights over American steel tariffs, which the WTO is preparing to rule against. And Washington is mumbling about launching a WTO complaint over Europe's refusal to import genetically modified crops. Both sides have an incentive to be patient and amenable to compromise—but only if Doha remains on track.

The lesson from the launch of the Doha round is that geopolitical stress, paradoxically, can boost trade rounds. In the summer of 2001, the prospects of launching a new trade round were dim, with huge divisions about what the Doha agenda should cover. The terrorist attacks of September 11th changed all that. Doha became a symbol of unity in the war against terrorism.

Today, progress in the trade talks could, once again, be a unifier. It could be a sign that the geopolitical strains in the transatlantic relationship have not polluted the economic sphere. Alternatively, in the aftermath of Iraq, the key negotiators may be even less willing to compromise.